

**LAWTON-BRONSON COMMUNITY
SCHOOL DISTRICT**

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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To the Lawton-Bronson Board of Education

We have performed the procedures enumerated below, which were agreed to by the Lawton-Bronson Board of Education, solely to assist you with respect to the accounting records of the District as of February 28, 2005. The District's management is responsible for its accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and finding are as follows:

a. Review of Paychecks to the Former Business Manager and Specifically Identified Person

We reviewed the paychecks and payments to the business manager from September 2001 to February 2005 in search of unauthorized payments. We also did the same, for the same period, for specifically requested parties with certain established relationships with the business manager.

Comparison of Payroll Registers to Checks/Direct Deposits Issued

We obtained the payroll registers, specifically for both the former business manager and an employee specifically identified by the Board, for the period from July 2002 through April 2005. For the period from September 2001 to June 2002, total payroll registers were used, and the net pay amounts for the two employees were taken from those. From these payroll registers, we compared the net check amount for each employee to the actual bank statement if checks were issued. In those instances when checks were written, the checks clearing the bank statement agreed to the payroll register information, and no additional or duplicate paychecks were found while reviewing the bank statements. The only extra payment found during the search was a check to the former business manager for \$1,200 in August 2004. We reviewed this check, and it did agree with an authentic signed grant contract. The contract called for the manager to be compensated for acting as the grant administrator for other local schools.

If the employees used direct deposit, we compared the direct deposit reports or the payroll registers to ensure that the total net pay for any month agreed to the general ledger amount to be electronically withdrawn from the school's account, and that the recorded electronic withdrawal matched the bank statement for that month. To find the net pay by direct deposit for each employee, we obtained the direct deposit reports from December 2003 through February 2005, and the total payroll registers from September 2001 through June 2003. We found the exact amounts of all checks on the payroll registers either being issued as checks on bank statement or being electronically deposited. We found that only one paycheck per employee was being issued per month, which agreed to the employee contracts. For the period from July 2003 to November 2003, we reviewed the employees' original check/direct deposit stubs. These stubs were compared to the employees' net pay before and after the five-month period, and all the stubs seemed reasonable when compared to other checks. We found only one stub per month per employee for the period from July 2003 to November 2003.

Comparison of Payroll Registers to Contracts

We compared the payroll registers for the two selected employees to the contracts that were used to calculate their payroll checks. We reviewed the actual employee contracts for the former business manager and the selected person for the 2002-2005 school years. We then calculated what their monthly salary would have been based on their employee contracts and compared that to gross pay amounts in the payroll register. We found no variations from the contracts for either employee for the 2002-2005 school years. The employee contracts for the 2001-2002 school year were not made available to us.

Conclusion

It appears that no extra paychecks or payments were written to the former business manager or the board-identified employee for the period in question. All the paychecks written, except for those written during the 2001-2002 school year, agreed to a signed contract, and the gross pay for each check agreed to the relevant contract.

b. Review of Selected Months to Compare Board Authorized Transactions to Cash Disbursements

We obtained invoices for ten selected months within the forty-two month time frame. We then compared those invoices with the list of approved invoices by the Board of Directors, examining and comparing invoices to the amount approved. After the comparison we obtained bank reconciliations listed by month for all school years available within the forty-two months. The lists of approved monthly bills were then compared to the corresponding bank reconciliations. To further our agreed-upon procedures we went to the extent of comparing the lists of approved monthly bills to actual bank statements. All findings are listed below organized first by school year then by month.

School Year 2001-2002

September

When comparing the list of approved bills to be paid to invoices we found that three invoices were missing. One of the missing invoices was a reimbursement of \$145.80 to the former business manager. The other two were \$1,019.64 and \$764.64 to Ahlers Law Firm and Menards, respectively. All checks cleared the bank in September as amounts approved.

January

When comparing the list of approved bills to be paid to invoices we found that there were no missing invoices. All checks cleared the bank in January as amounts approved.

School Year 2002-2003

July

When comparing the list of approved bills to be paid to invoices we found that there were three missing invoices. They were for \$681.28 to Ahlers Law Firm, \$2,204.44 to an employee for expense reimbursement, and \$101.70 to Sioux City School. All checks cleared in July as amounts approved.

November

When comparing the list of approved bills to be paid to invoices we found that there was no missing invoices. There was a reimbursement for \$96.53 to the former business manager that did not have any receipts. All checks cleared the bank in November as amounts approved.

April

When comparing the list of approved bills to be paid to invoices we found that there were five missing invoices. They were for \$83.26 to First Call, \$149.50 to Grey House Publishing, \$36.72 to Radio Shack, \$20.00 to Scholastic and \$124.25 to Scholastic. Also, included was a reimbursement to the former business manager for \$439.81. The amount reimbursed was \$11.24 more than receipts attached showed. We decided to check reimbursements for May and June of 2003 to compare reimbursements to the former business manager and found that in June there was a reimbursement to her for \$218.48 with no invoice. In May the reimbursement was for \$218.08 with an invoice. There was also a check to MidAmerican paid in the amount of \$7,451.89 which was \$870.15 over the amount actually due. Upon further investigation we found that the credit was issued the following month. No refund was given that could be seen. All other checks cleared the bank as approved amounts.

School Year 2003-2004

August

When comparing the list of approved bills to be paid to invoices we found that there were three missing invoices. They were for \$210.27 to an employee for expense reimbursement, \$3,505.09 to MidAmerican Energy and \$41,447.84 to Sioux City Community School District. There was also a check to the United States Post Office for \$500 with only a note suggesting that it was bulk mailing and no other kind of invoice. All checks cleared in August as amounts approved by the board.

December

When comparing the list of approved bills to be paid to invoices we found there were four missing invoices. They were for \$129.22 to an employee for expense reimbursement, \$2,550.00 to King, Reinsch, Prosser & Company, \$12.00 to an employee for expense reimbursement, and \$907.36 to Jackson Glass. There was also a reimbursement in the amount of \$113.63 to the former business manager that had an invoice attached. All checks cleared the bank in December for the approved amounts.

February

When comparing the list of approved bills to be paid to invoices we found that there were four missing invoices. They were for \$808.92 to CDW Government, \$8.40 to Daniels-Olsen Bldg Products, \$209.22 to Midwest Computer Products, and \$762.50 to Traum Security Systems. All checks cleared the bank in February for the approved amounts.

School Year 2004-2005

September

When comparing the list of approved bills to be paid to invoices we found that there were two missing invoices. They were for \$164.65 and \$676.83 to Safety-Kleen Corp and Menards, respectively. Also noted was a reimbursement to the former business manager for \$73.87 that did not have invoice in file for a mentioned physical of \$40.00. All checks cleared the bank in September for the approved amounts.

November

When comparing the list of approved bills to be paid to invoices we found that there was only one missing invoice. It was for \$540.00 to Luse-Etler-Goodwin, Inc. Also noted was the amount paid to ASCD the amount approved by the board was \$1,729.25. However, the amount paid was \$930.25 which is also the amount that cleared the bank statement. Also, approved was \$121.20 to Gemplers which has not cleared bank statements thru February 2005. There was also a reimbursement to the former business manager for \$359.10 for QuickBooks Software that was not formally approved by the board for access to schools accounting system at her home. All checks cleared the bank in November as approved amounts.

Additional Tasks and Conclusion

Besides the above listed findings we examined invoices for piano tuning expenses in the forty-two month time frame and found that the invoices seemed reasonable and appeared correct. Also, after finding credits being issued approximately every month from MidAmerican Energy and Western Iowa Telephone, we compared the credit to the following month and found that the credits were being posted on the invoices and no refund was given in the ten months selected. After consulting with the new business manager, we found that the credits were due to taxes and surcharges imposed on the school that should not have been. No further investigation was done on the ten months selected as we could see the amounts being caught up on the following month.

c. Review of Cash Disbursements for Suspect & Duplicate Vendor Payments

We obtained spreadsheet copies of the check registers for the entire 2003-2004 school year, and for the 2004-2005 school year through March 2005. We were not able to obtain electronic spreadsheet copies of the check registers for the 2001-2002 and 2002-2003 school years, and did not conduct the following procedures for those periods as a result.

For the years available, we grouped together the checks listed for those accounts under the control of the former business manager, and then sorted the checks by vendor, date, and then amount. For each year, we marked for examination those vendors who received more than one check in a month, or those vendors who were paid the same amount in more than one check. Once those vendors were found, we then compared the list to the school's invoices on file, in order to determine if any checks paid for the same invoice more than once, and if so, if the credits were properly applied to the school's account or refunded. The following results are sorted by school year.

The 2003-2004 School Year

Six checks did not have any supporting documentation in the files. These checks are not necessarily indicative of any errors other than a lack of proper recordkeeping. They were as follows:

- Morningside College for \$50.00
- The former business manager for \$223.63
- Mid-American Energy for \$3,505.09 and \$9,329.71
- Pearson Education for \$536.86
- Sergeant Bluff-Luton Schools for \$12,486.42

Two vendors, Pearson Education and Prufrock Press, were overpaid by \$918.95 and \$431.86, respectively. We corroborated the amounts to refund checks deposited into the former business manager's personal account, with assistance from the Woodbury County Sheriff's office.

Presto-X, an extermination company, was overpaid by \$202.00. Successive vendor statements show that particular invoices were repaid in successive months, with no credit to be found on the vendor statements/invoices. Upon request, Presto-X did confirm that no money was sent back to the school, and that all overpayments were applied to later services.

The 2004-2005 School Year

Three vendors, ACSD, Global Government Education, Harcourt Assessment, and Midwest Computer Products were overpaid by \$930.25, \$2,599.60, \$422.13, and \$3,280.00, respectively. We corroborated the amounts to refund checks deposited into the former business manager's personal account, with assistance from the Woodbury County Sheriff's office. In the case of the Global Government Education overpayment, it was intercepted by the business manager's personal bank, and led to the school's notification.

Four other vendors, Adorama, B & H, Scholastic, and Thompson Learning were overpaid by \$1,689.95, \$622.20, \$77.23, and \$231.97, respectively. We compared the supporting invoices in the school's files, and found that for these four vendors certain invoices were paid twice or even three times. No credit was found on later statements, and no checks from these four vendors were found in the information gathered from the Woodbury County Sheriff.

Staples, Kinko's, and USA Today were also vendors with apparent overpayments of \$226.10, \$69.20, and \$130.00, respectively. In all three cases, it is difficult to determine if credits were applied to the school's accounts, as only statements, not original invoices, were attached to the check stubs, and later statements were not found.

Lastly, Presto-X was also overpaid in this year as well by \$202.00. Successive vendor statements show that particular invoices were repaid in successive months, with no credit to be found on the vendor statements/invoices. Upon request, Presto-X did confirm that no money was sent back to the school, and that all overpayments were applied to later services.

Conclusion

Some of the overpayments to vendors were refunded but deposited by the former business manager in her personal account, while other overpayments were applied by the vendors as credits for later purchases. See the Examination of Personal Accounts section for further details regarding the magnitude of the misappropriated refund checks.

d. Review of sales tax payments and electronic wire transfers

We obtained bank records for all bank and investment accounts under the former business manager's control for the period of her employment. We compared these records to the general ledger activity for the period, and to a listing of payments to Lawton-Bronson Schools that the State of Iowa provided. We also compared the wire transfers listed in the bank records for each month. The results were as follows.

Comparison of State Payments to Bank Records

We compared the State of Iowa's payment listing to the school's bank records, in order to verify that State sales tax payments had been properly deposited in the school's accounts. No exceptions were noted, and all sales tax payments were properly deposited in the school's accounts.

Comparison of Wire Transfers

We followed the wire transfers in the relevant accounts, and examined them to detect if any transfers were improperly made. During the period under examination, two such transfers were identified. All other transfers in the school's bank accounts were properly carried out and reflected in the bank records.

The first transfer occurred on December 19, 2003. The former business manager transferred \$27,819.30 out of the One Cent Big Check bank account, and into her personal Wells Fargo account. When this transfer was detected during the 2003-2004 school year audit, the former business manager then performed the second transfer on October 18, 2004. On that date, she transferred \$36,500.00 out of the school's Iowa School Joint Investment Trust (ISJIT) account, and into her personal Wells Fargo account. Then, on October 19, 2004, she transferred \$27,819.30 out of her Wells Fargo account and into the One Cent Big Check account, in order to replace the first transfer she performed.

Overpayment of Bond Interest

In addition to the transfer described above, we also detected another fraudulent transfer while examining the personal banking records. On December 1, 2003, the former business manager authorized an interest payment on one of the school's bond issues. The payment was properly directed to the relevant parties, but the amount paid was \$8,710.00 more than required. On December 12, she wrote a letter on the school's letterhead to the bond issue administrator, the Depository Trust Company (DTC). The letter directed the DTC to wire the \$8,710.00 to her personal account at Wells Fargo Bank. The DTC did not know that the school does not have a Wells Fargo account, the letter did not state the owner of that account, and in addition Wells Fargo helped process the original interest payment. The DTC did not suspect anything out of the ordinary, and did as instructed.

When the interest overpayment was detected during the 2003-2004 school year audit, the former business manager then performed the transfer from ISJIT on October 18, 2004, as described above. She took \$36,500.00 from ISJIT to cover the \$8,710.00 interest overpayment, and the \$27,819.30 in stolen sales tax funds. Then, on October 19, 2004, she transferred \$8,710.00 out of her Wells Fargo account and into the school's Debt Service checking account, in order to replace the original interest overpayment.

Examination of General Ledger Activity

After the above steps, we compared the Sales Tax Fund general ledger activity for the term of the former business manager's employment to the available bank records. With one exception, the examined general ledger activity appears to coincide with the underlying bank records.

In order to hide the December 19, 2003 transfer described above, the former business manager entered a general journal entry on the school's books. From the school's perspective, it would appear that the \$27,819.30 in question would be an outstanding deposit on the bank account reconciliations, and that the school expects to collect the funds at some time in the future.

For the bond interest overpayment, she did not book a general journal entry, but instead left the overpayment in interest expense.

Conclusion and Timeline

The former business manager first transferred school funds into her personal account on December 19, 2003, and covered the transfer with a general journal entry. At that time, she also directed a bond interest overpayment to her personal account, but did not book a journal entry for the overpayment. When questioned about both during the 2003-2004 school year audit, she then transferred more funds to her personal account, and then returned the original amounts taken to the school.

e. Examination of Personal Accounts

With the assistance of the Woodbury County Sheriff, we examined the former business manager's personal banking records with three different financial institutions. During the examination, we noted 19 different checks belonging to Lawton-Bronson Schools that were deposited in her personal accounts. These checks were deposited between July 2003 and February 2005, and at last count, totaled \$17,947.40. See the attached Schedule A for a listing of these checks, and see the attached Schedule B for a summary of the total amount taken. At the time of this report, the Sheriff's office is still pursuing supporting evidence for several other deposits made in her personal accounts.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting record. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Lawton-Bronson Community School District and is not intended to be and should not be used by anyone other than those specified parties.

Williams & Company, P.C.
Certified Public Accountants

Sioux City, Iowa
October 5, 2005

SCHEDULE A
CHECKS BELONGING TO THE DISTRICT THAT
WERE DEPOSITED IN THE PERSONAL BANK ACCOUNTS
OF THE FORMER BUSINESS MANAGER

Month When Check Was Deposited in Personal Accounts	Party from Whom the Check Originated	Amount
September 2003	Vendor Unreadable	\$ 1,758.21
November 2003	School Specialty	753.46
	Prufrock Press	431.86
	Pearson	397.90
December 2003	RMC Insurance	200.00
	School Administrators of Iowa	191.00
	Burke Engineering	1,182.04
April 2004	Pearson	918.95
	Remsen-Union Community School	1,719.30
	Mid-American Energy	1,200.00
June 2004	Remsen-Union Community School	591.26
August 2004	Remsen-Union Community School	839.86
November 2004	Western Iowa Telephone	2,430.28
December 2004	ACSD	930.25
January 2005	Midwest Computer Products	3,280.00
	Nikon	200.00
	Net-I	50.00
February 2005	Pitney Bowes	450.90
	Harcourt Assessment	422.13
	Total	<u>\$ 17,947.40</u>

SCHEDULE B
SUMMARY SCHEDULE OF
TOTAL FUNDS TAKEN

Checks Intercepted per Schedule A	\$ 17,947.40	
December 1, 2003 - Overpayment of Bond Interest	8,710.00	
December 19, 2003 - Transfer of Sales Tax Monies	27,819.30	
October 18, 2004 - Transfer of ISJIT Monies	<u>36,500.00</u>	
Total Amounts Taken		90,976.70
October 19, 2004 - Return of Sales Tax Monies	(27,813.30)	
October 19, 2004 - Return of Bond Interest	(8,704.00)	
January 27, 2005 - Partial Repayment by Check	<u>(478.00)</u>	
Total Amounts Returned		<u>(36,995.30)</u>
Net Amount Taken		<u><u>\$ 53,981.40</u></u>